BUSINESS RECORDER
Founded by M.A. Zuberi

14th February, 2020

TAHIR AMIN

WB identifies challenges to job growth

ISLAMABAD: Owing to the economy's frequent boom and bust cycles, transitions out of agriculture into industry and services in Pakistan have been slow, and the growth of productivity within sectors has been negligible, says the World Bank.

The WB in its latest report, "Jobs Diagnostic Pakistan", states that data indicate that the country's human resources are underutilized, with low productivity levels on average. A significant share of workers in the labor market is in non-paid or low-paying jobs.

If the economy had grown steadily without much fluctuation, the overall change in the quality of jobs could have been greater. Amid the current demographic transition-characterized by declining fertility rates and a growing share of working-age individuals in the total population-policy efforts are urgently required to address the underutilization and low productivity of Pakistan's human resources, the report says.

To address the key challenges of quantity, quality, and accessibility of jobs, Pakistan can use targeted interventions that strengthen the fundamentals of job creation, boost productivity, and promote inclusiveness of the labour market. Each requires a multi-sectoral approach and can go beyond the scope of traditional job policies.

The report maintained that Pakistan had made remarkable progress in alleviating poverty over the past 15 years. The share of the population living in poverty decreased from 64.3 to 24.3 percent between 2001 and 2015, as more than 30 million individuals rose above the poverty line. To sustain this progress and to realise the ambition of becoming an upper-middle-income country by 2047, it is critical that the country's most abundant asset- labour-be utilized in productive income-generating activities.

Labour market data from 2017 suggest that a total population of 208 million relies on the incomes of only 46 million earners. This is partly because of the country's demographic structure, whereby 47 percent of the population is either over 65 or under 15. But even among those of working age, approximately half are out of the labor force, in large part due to a low rate of female participation.

Pakistan is undergoing a demographic transition as the number of working-age individuals continues to grow faster than the overall population. This could help create an environment conducive to economic growth and demographic dividends, the report says.

However, a demographic transition alone does not automatically lead to dividends. Three key aspects of the job market-the quantity, quality, and inclusiveness of jobs-must be simultaneously addressed to reap the potential benefits of a young labor market, the WB report suggests.

Pakistan needs more workers to engage in productive activities and support the economy's growth. If the market is to absorb more of the people currently out of the labour force, more job opportunities need to be created.

In 2017, the share of the employed (57 million) out of the total population in the country (208 million) was only 27 percent. This means that one breadwinner provides for 3.6 individuals in Pakistan-a significantly higher ratio than in other countries (e.g., 2.7 people per breadwinner in Bangladesh and 1.9 in Vietnam).

This is in part because almost half of the working-age population is out of the labour force, mainly due to very low female labour force participation (FLFP) rate and a high percentage of youth who are not in education, employment, or training (NEET).

Agricultural jobs, most of them informal, provide employment opportunities to a large share of workers: in 2017, over 40 percent of workers in Pakistan were employed in agriculture. In addition, a significant share of households (28 percent in urban areas and 17 percent in rural areas) reported being self-employed in non-farm, non-agricultural household enterprises, most of which were also likely to be informal.

Frequently mentioned constraints include women's lack of mobility, household responsibilities, social and individual perceptions of women's work, and road and workplace safety issues. In addition, the quality and variety of jobs available to women is rather limited: the majority of employed women are almost exclusively in agriculture (78 percent) and manufacturing (19 percent), with a large share of working women being unpaid and underemployed.

The share of youth (ages 15-24) who are in the NEET category is high, showing large variations across the male/female and urban/rural divides. Moreover, as the employment structure differs widely between urban and rural areas, so does the quality of jobs. The heterogeneity of labour market outcomes across different types of workers is further compounded by large variations across provinces.

Among the working-age population, the share of youth (aged 15-24) is high, at almost 35 percent, and every year a large number of young individuals (around two million) enter the labour force. New entrants tend to be better educated than their predecessors, seek more modern types of employment in non-agricultural sectors, and are mobile within and across borders.

Labour market transitions from agriculture to the service and industry, from non-wage to wage employment, and from rural to urban economies, are all taking place although the pace of such transitions varies. Improved education in part explains these trends, given the strong association between education and labor market outcomes.

The report highlights that a digital job sector has started emerging, with good potential to provide an engine of growth. An increasing number of workers pursue overseas employment and their remittances have provided huge incomes flows to the economy. This progress has been made, albeit gradually, despite volatile macroeconomic conditions. However, many challenges remain.

The WB report underscores that at the aggregate level, compared with 2000, in 2017 the labor market was less agriculture based and featured more wage employment. However, the pace of this change has been very slow, and Pakistan's labour productivity growth rate has been far lower than that of comparator countries (e.g., Bangladesh, India, Sri Lanka, Indonesia, and Vietnam) during the same period.

The report suggests that though the private sector creates jobs, the government can adopt measures to make the economic environment more conductive to quality job creation in line with strategies for growth. Ensure macroeconomic stability and move away from long-standing economic fluctuations. Stable growth helps create quality jobs, while busts easily reverse the progress made. Short-term stabilizers addressing the issues of current account imbalance, depleted foreign exchange reserves, and lack of confidence in the economy help avoid deeper recessions.

At the same time, measures to ensure fundamental stability (e.g., tax policies to improve revenue and remove distortionary subsidies, reforms for public utilities and energy sectors to rationalize public spending, an exchange rate policy to strengthen the export sector) should continue to be upheld even after short-term crises are avoided. There is renewed emphasis on these policies in light of the recent, near-crisis macroeconomic conditions of 2019.

The business environment can be significantly improved by a strong government commitment to policy reforms and their prioritization, and to the adoption of innovative technology.

The report suggests that export competitiveness can be fostered with initiatives that help reduce production and information cost. For this purpose, the government can promote a gradual reduction in tariffs on both intermediate and final goods. Reduced tariffs on intermediate goods helps reduce the production cost for firms downstream by allowing them to access cheaper, better quality, and more varied intermediate inputs. This makes their products more competitive in the global market. In the meantime, reducing tariffs on final products will bring in more competition and will spur efficiency gains by helping more productive firms to grow. At the same time, exports can be promoted by reducing information costs for new exporters in finding new markets or introducing new products.

The report highlights, Pakistan lags in capital investment-as measured by the rate of fixed capital formation and foreign direct investment (FDI). Fiscal space for public investment is also limited due to very limited tax revenues. Thus, resource mobilization through tax policies and drives for financial inclusion in the domestic market are required and the National Financial Inclusion Strategy 2015).

Investing in human capital and building a strong foundation for labor productivity are critical. Given that the human capital indicators of vulnerable individuals are significantly lagging behind, targeted support for low-income families and girls in particular should be prioritized.

The WB report lauding the current government says a recently announced policy framework, Ehsaas (meaning "compassion"), and corresponding provincial investments are a welcome approach policies to boost productivity.

The report stresses steady and long-term policy efforts are needed to influence social norms toward encouraging women's empowerment.